Notes on the unaudited interim financial report
(Expressed in Hong Kong dollars)

(1) Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with SAS 700, issued by HKSA, except that they have not reviewed the comparative information relating to the six months ended 30 June 2000. KPMG's independent review report to the board of directors is included on page 22.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of the Stock Exchange, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA, except that comparative figures for the cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Main Board Listing Rules.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2000 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 25 May 2001. However, they have drawn the attention of the Company's shareholders to the fundamental uncertainty concerning the going concern of the Group's listed associate, HK Construction.

The accounting policies and method of computation used in the preparation of the interim financial report are consistent with those used in the annual accounts for the year ended 31 December 2000 except for the changes in accounting policies as described in note 2.

(2) Change in accounting policies

(a) SSAP 30 "Business combinations"

In prior year, capital reserve or goodwill arising on consolidation, representing the excess or deficit of the cost of investments in subsidiaries, associates and jointly controlled entity over the appropriate share of the fair value of the net tangible assets at the date of acquisition, was taken to reserves in the year in which it arose. On disposal, the attributable amount of capital reserve or goodwill is included in calculating the profit or loss on disposal.

With effect from 1 January 2001, with the introduction of SSAP 30 "Business combinations" issued by the HKSA, the Group adopted an accounting policy to recognise goodwill as an asset and amortise it to the profit and loss account on a straight-line basis over its estimated useful life. Negative goodwill which relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the profit and loss account. On disposal of a consolidated enterprise, any attributable amount of purchased goodwill not previously amortised through the profit and loss account is included in the calculation of the profit and loss on disposal.

The Group has taken advantage of the transitional provisions in SSAP 30 which do not require restatement of goodwill or negative goodwill taken to reserve prior to 1 January 2001, and there is no financial effect to the Group for the prior periods.

(2) Change in accounting policies *(Continued)*

(b) SSAP 31 "Impairment of assets"

Under SSAP 31, the Group should assess at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Group should estimate the recoverable amount of the asset. Recoverable amount is the higher of an asset's net selling price and its value in use. Impairment losses should be recognised in the profit and loss account. However, any impairment arising on goodwill previously written off against reserves should be treated as a change in accounting policy in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and change in accounting policies". As a result of this change, the respective accumulated losses at 1 January 2000 and 1 January 2001 were restated and increased by approximately $243,000,000 representing an impairment loss on goodwill written off to the prior year's consolidated profit and loss account.

(3) Segmental information

The analysis of the principal activities of the operations of the Company and its subsidiaries during the financial period are as follows:

	Group Turnover Six months ended 30 June		**Loss from ordinary activities before taxation Six months ended 30 June**	
	2001	**2000**	**2001**	**2000**
	$'000	*$'000*	*$'000*	*$'000*
Principal activities				
Manufacture and sale of timber products	142,511	243,021	(34,590)	1,009
Property rental	7,883	6,398	6,058	4,564
Securities trading	–	645	186	522
Head office and others	–	444	(68,708)	(35,727)
	150,394	250,508	(97,054)	(29,632)
Share of net (losses)/profits before taxation of associates			(74,232)	5,038
Write back of provision for interest in associate			161,132	–
Share of profits of jointly controlled entity			7,657	4,156
			(2,497)	(20,438)

In view of the fact that the Group operates mainly in the People's Republic of China ("PRC"), no geographical segmental information is presented.

(4) Loss from ordinary activities before taxation

Loss from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2001	**2000**
	$'000	*$'000*
Interest on bank advances and other borrowings	53,642	52,374
Amortisation of non-current financial assets	–	4,000
Amortisation of investment in jointly controlled entity	1,188	1,188
Depreciation	10,593	14,256
Loss on sale of fixed assets	387	174
Gain on partial disposal of an associate	(1,730)	–
Unrealised gains on trading securities carried at fair value	(194)	–
Provision for diminution in value of other financial assets	24,475	–
Provision for impairment of fixed assets	18,000	–

(5) Taxation

Taxation in the consolidated profit and loss account represents:

	Six months ended 30 June	
	2001	**2000**
	$'000	*$'000*
Provision for PRC income tax on the estimated taxable profits for the period	546	487
Share of associates' taxation	3,082	4,347
	3,628	4,834

No provision for Hong Kong profits tax has been made in the accounts as the Group sustained a loss for Hong Kong profits tax purposes during the period. Taxation for PRC operations is charged at the appropriate current rates of taxation ruling in the PRC.

(6) Dividend

The directors resolved not to pay an interim dividend for the six months ended 30 June 2001 (2000: Nil).

(7) Loss per share

(a) Basic loss per share

The calculation of loss per share is based on the loss attributable to shareholders of $1,772,000 (2000: $26,041,000) and 2,548,311,700 ordinary shares (2000: 2,548,311,700 ordinary shares) in issue during the period.

(b) Diluted loss per share

Diluted loss per share is not shown as all the potential ordinary shares are anti-dilutive.

(8) Interest in associates

	At 30 June 2001 $'000	At 31 December 2000 $'000
Listed investment *(note (a))*	195,030	150,979
Unlisted investments *(note (b))*	826,162	808,135
	1,021,192	959,114

Notes:

(a) Listed investment

	At 30 June 2001 $'000	At 31 December 2000 $'000
Shares listed in Hong Kong		
Share of net assets net of provision	253,674	190,206
Amount due to an associate	(58,644)	(39,227)
	195,030	150,979
Market value of listed shares	209,716	190,206

On 15 June 2001, the Group entered into a conditional sale and purchase agreement with Shanghai Construction, an independent third party. Pursuant to the agreement, the Group agreed to dispose of its interest in 3,000,000 shares and 114,000,000 shares of its listed associate, HK Construction to Vickers Ballas Hong Kong Limited and Shanghai Construction respectively. The disposal of 3,000,000 shares at a consideration of $3,570,000 (or $1.19 per share) was completed before 30 June 2001. The disposal of 114,000,000 shares at a consideration of $189,240,000 (or $1.66 per share) was completed on 6 July 2001. Following the completion of the above disposals, the Group's interest in HK Construction would be reduced to approximately 10%. Having regard to the circumstances and the estimated recoverable amount, a provision previously made amounting to approximately $161,000,000 has been written back to the profit and loss account for the period.

(b) Unlisted investments

	At 30 June 2001 $'000	At 31 December 2000 $'000
Share of net assets	339,253	321,226
Amount due from associate	486,909	486,909
	826,162	808,135

Amount due from associate is unsecured, interest free and has no fixed terms of repayment.

(9) Interest in jointly controlled entity

	At 30 June 2001 $'000	At 31 December 2000 $'000
Share of net assets	71,008	63,365
Amount due from jointly controlled entity (net)	374,771	277,685
Less: Amortisation	(7,966)	(6,778)
	437,813	334,272

The net amount due from jointly controlled entity is unsecured, interest-free and not expected to be settled within one year.

(10) Inventories

Inventories of $47,815,000 (at 31 December 2000: $62,549,000) were stated net of a general provision in order to state these inventories at the lower of their cost and estimated net realisable value.

(11) Debtors, other receivables, deposits and prepayments

Included in debtors, other receivables, deposits and prepayments are trade debtors (net of provisions for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2001 $'000	At 31 December 2000 $'000
Current	68,252	73,453
1 to 6 months overdue	3,976	16,132
More than 6 months but less than 12 months overdue	10,938	1,882
More than 12 months overdue	–	901
Total trade debtors	83,166	92,368
Other receivables, deposits and prepayments	27,123	31,302
	110,289	123,670

Debts are usually due within 30 days from the date of billing.

(12) Cash and cash equivalents

	At 30 June 2001 $'000	At 31 December 2000 $'000
Deposits with banks	–	5,000
Cash at bank and in hand	78,826	257,518
	78,826	262,518

(13) Creditors, other payables and accrued expenses

Included in creditors, other payables and accrued expenses are trade creditors with the following ageing analysis:

	At 30 June 2001 *$'000*	At 31 December 2000 *$'000*
Due within 1 month or on demand	15,640	15,107
Due after 1 month but within 3 months	12,427	6,027
Total creditors	28,067	21,134
Other payables and accrued expenses	44,179	52,855
	72,246	73,989

(14) Share capital

	No. of shares *'000*	Amount *$'000*
Issued and fully paid:		
At 1 January 2001 and 30 June 2001	2,548,312	254,831

A summary of the share options granted under the share option scheme is follows:

Exercise price per share	Number of share options outstanding as at 1 January 2001	Cancelled during the period	Number of share options outstanding as at 30 June 2001
$5.22	13,974,800	(5,704,000)	8,270,800
$2.23	2,000,000	–	2,000,000
$0.758	2,000,000	–	2,000,000
$0.48	500,000	–	500,000
	18,474,800	(5,704,000)	12,770,800

No option was granted nor exercised during the period.

(15) Reserves

	Share premium $'000	Capital reserve/ (goodwill) arising on consolidation $'000	Exchange differences arising on translation $'000	Capital redemption reserve $'000	Revaluation reserve of land and buildings $'000	Accumulated losses $'000	Total $'000
At 1 January 2001							
– as previously reported	2,817,279	(184,264)	(6,014)	70	243	(1,931,876)	695,438
– prior period adjustment *(Note 2)*	–	242,782	–	–	–	(242,782)	–
– as restated	2,817,279	58,518	(6,014)	70	243	(2,174,658)	695,438
Share of exchange reserve of associates	–	–	(733)	–	–	–	(733)
Exchange reserve written back on partial disposal of an associate	–	–	158	–	–	–	158
Exchange differences on translation of accounts of subsidiaries, associates and jointly controlled entity	–	–	(12)	–	–	–	(12)
Loss for the period	–	–	–	–	–	(1,772)	(1,772)
At 30 June 2001	2,817,279	58,518	(6,601)	70	243	(2,176,430)	693,079

(16) Material related party transactions

There were the following material transactions with related parties during the period:

(a) The Group has the following related parties transactions with CEH:

	Six months ended 30 June 2001 $'000	2000 $'000
(i) Interest expenses paid	27,056	25,051
(ii) Disposal of interest in carparking spaces	9,678	–

(b) On Land Limited, a subsidiary of the Group, entered into the following related party transactions with subsidiaries of CEH:

	Six months ended 30 June 2001 $'000	2000 $'000
Rental income for the provision of office premises	491	329

(16) Material related party transactions *(Continued)*

(c) Everbright Timber Industry (Shenzhen) Company Limited ("SETI"), a subsidiary, purchased certain of its imported raw materials through Sino State Industries Limited ("Sino State") and China Everbright Trading Development Company Limited ("CE Trading"), subsidiaries of CEH and act as major purchasing agents of SETI.

(i) during the period ended 30 June 2001 purchases of raw timber logs and veneer by SETI from the above purchasing agents were $18,514,784 (2000: $52,269,657).

(ii) the directors of the Company have reviewed these connected transactions and confirmed that such transactions were entered into:

– by SETI in the ordinary and usual course of its business;

– in accordance with the terms of arrangements governing such transactions, or where there was no such arrangement, on normal commercial terms, or on terms no less favourable than terms available to SETI from independent third parties;

– on terms that are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned; and

– within the limit of 70% of the Group's total purchases in monetary terms of raw materials related to its plywood and timber products manufacturing businesses.

(d) In 1998, the jointly controlled entity, FZGM, entered into an agreement with an associate of the Group for the construction of a bridge in Fuzhou, the PRC. The contracted sum of the bridge amounted to $427,000,000 (at 31 December 2000: $427,000,000) of which $292,000,000 was paid up to 30 June 2001 (at 31 December 2000: $249,000,000) in accordance with the progress of construction work. The remaining $18,000,000 (at 31 December 2000: $28,000,000) and $117,000,000 (at 31 December 2000: $150,000,000) represent FZGM's outstanding commitment in the contract and the construction cost payable to the associate respectively. In the opinion of the directors of the Company, the transaction was carried out on normal commercial terms and in the ordinary course of business.

(e) Included in the balance sheets are the following balances with related parties:

	At 30 June 2001 *$'000*	**At 31 December 2000** *$'000*
Amounts due from fellow subsidiaries	70,432	57,286
Amount due to ultimate holding company	(63,440)	(56,571)
Loans from ultimate holding company	(675,103)	(675,103)
Amount due from associate	486,909	486,909
Amount due to associate	(58,644)	(39,227)

(17) Capital commitments

Capital commitments outstanding at 30 June 2001 not provided for in the Group's accounts were as follows:

	At 30 June 2001 *$'000*	**At 31 December 2000** *$'000*
Contracted for	894,348	991,434

The above commitments related to the Group's commitments to fund the jointly controlled entity based on the original joint venture agreement and will be financed by existing bank facilities and loan facilities provided by the ultimate holding company. The jointly controlled entity originally intended to use the fund for the construction of a toll road. However, the construction work of the toll road was suspended in 1999 as a result of change in project plan.

(18) Contingent liabilities

At 30 June 2001, there were contingent liabilities in respect of the following:

(a) Guarantees given to banks by the Group amounting to $85,416,000 (at 31 December 2000: $95,621,000) in respect of its 25% share for banking facilities extended by banks to an associate.

(b) Guarantee given to a third party by the Group in respect of guarantee extended by the third party to banks for banking facilities granted to a subsidiary of the Company amounting to $13,325,000 (at 31 December 2000: $18,043,000) .

(19) Pledge of assets

As 30 June 2001, the Group pledged listed, unlisted investments and fixed assets with an aggregate net book value of approximately $1,063,000,000 (at 31 December 2000: $1,027,000,000) to secure general banking facilities granted to the Group.

(20) Post balance sheet event

As mentioned in note 8 above, on 15 June 2001, the Group entered into a conditional sale and purchase agreement with an independent third party. Pursuant to the agreement, the Group would dispose of its interest in 114,000,000 shares of HK Construction to the third party for a consideration of $189,240,000 (or $1.66 per share). The transaction was completed on 6 July 2001.

(21) Comparative figures

Certain comparative figures in the accounts have been restated to reflect the changes in accounting policies as set out in note 2 in the interim financial report.

(22) Approval of interim financial report

The interim financial report was approved by the board on 24 September 2001.